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FM AMEMBASSY TUNIS
TO RUEHC/SECSTATE WASHDC PRIORITY 2567
INFO RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0837
RUEHAS/AMEMBASSY ALGIERS PRIORITY 7393
RUEHLO/AMEMBASSY LONDON PRIORITY 1243
RUEHNK/AMEMBASSY NOUAKCHOTT PRIORITY 0837
RUEHFR/AMEMBASSY PARIS PRIORITY 1702
RUEHRB/AMEMBASSY RABAT PRIORITY 8298
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0029
RUEHCL/AMCONSUL CASABLANCA PRIORITY 4043
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUCPDOC/USDOC WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 TUNIS 000120

SIPDIS

SENSITIVE
SIPDIS

STATE FOR NEA/MAG (HARRIS AND HOPKINS) AND EB/CIP
STATE PASS USTR (BELL), USPTO (ADLIN AND ADAMS), USAID
(MCCLOUD)
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (JAMES),
AND CLDP (TEJTEL)
CASABLANCA FOR FCS (ORTIZ)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: N/A
TAGS: BEXP ETRD EINV ECPS EINT KIPR TS
SUBJECT: US COMPANIES BEMOAN COMPLEX REGULATIONS, BUT ARE
STILL HAPPY IN TUNISIA

REF: A. TUNIS 119
¶B. TUNIS 105
¶C. TUNIS 67 AND PREVIOUS NOTAL
¶D. 06 TUNIS 629
¶E. 06 TUNIS 429

Summary

¶1. (U) During a January roundtable hosted by Ambassador, representatives of US companies in Tunisia highlighted a wide range of issues related to doing business in Tunisia. Common complaints included Tunisia's complex regulatory environment, excessive restrictions on importation, and poor telecommunications infrastructure. Despite the myriad challenges facing US companies, most representatives emphasized that their businesses were healthy and that they were satisfied that they invested in Tunisia. Ambassador stressed USG support for American business in Tunisia and has subsequently raised US company concerns with several GOT ministers. End Summary.

Red Tape

¶2. (SBU) The most common, and passionate, complaint voiced by US companies was the complexity of Tunisian regulations governing trade and commerce and the slow pace of the GOT bureaucracy. ExxonMobil Tunisia Director General Arnaud Blouin noted that he had been trying to get permission from the GOT to sell a property for over three years, despite the fact he had already negotiated the terms of the sale with the buyer. Blouin stated that examples such as this make it difficult to justify acquisitions of new property and investments as there is no guarantee the asset could be divested in a timely manner. Central Bank control over exchange operations, customs delays, and Ministry of Finance regulations also slow international commerce. Crown Maghreb

Director General Aidan Sanderson noted that the Ministry of Finance had yet to refund the (recoverable) 18 percent value-added tax (VAT) the company paid for imported equipment. Crown submitted its refund request in May 2006 and has only recovered 3.1 million Tunisian dinars (2.4 million USD) of the total 9 million dinars (6.9 million USD) claimed. The onerous recovery procedures and long wait-times hinder the efficient flow of capital, preventing resources from being allocated to further investment.

Telecommunications

¶3. (SBU) While all participants acknowledged the excellence of Tunisian electric and water utilities, Tunisie Telecom services were widely panned for the time required to establish a connection and the quality of the connection itself. Although there are multiple Internet service providers, Tunisie Telecom maintains a monopoly on fixed line services. Prior to establishing a high-speed Internet connection, Tunisie Telecom must install a high bandwith line. Anecdotal reports from Tunisians and EmbOffs show waits of several months to receive the necessary Tunisie Telecom line; the US company representatives present complained that they are subject to similar wait times. Moreover, Internet connection speed and quality were critized as subpar. For multinational companies high-speed telecommunications are critical, and those present expressed their frustration that Tunisia's telecom infrastructure remains inadequate compared to its otherwise excellent utility and transportation infrastructure. A British Gas representative recently told EconOff that his company had

taken matters into its own hands by laying telecommunications cables to ensure high-speed connectivity.

IPR

¶4. (SBU) Although noting continuing concerns with intellectual property rights (IPR), particularly in the pharmaceutical industry, Pfizer representative Amelle Gaddes expressed relief over the recent decision by the GOT to end its practice of "correlation." Prior to December 31, 2006, the GOT prohibited the importation of foreign pharmaceutical equivalents if the drug was produced locally, preventing brand names such as Pfizer from importing certain pharmaceutical products (ref D). While pleased that "correlation" has come to an end, Gaddes noted that the decision was not retroactive and that drugs placed on the banned list prior to decision will continue to be blocked from importation. Gaddes informed Econ/CommercialOff that in the days prior to the decision 150 new pharmaceutical products, including four Pfizer products, were quickly added to the list of correlated products that could not be imported. (Note: Ambassador subsequently raised this issue with the Minister of Health (septel). End Note.)

Export Orientation

¶5. (SBU) Several of the representatives lamented the GOT focus on exports and noted that, from an economic policy perspective, the emphasis is excessive and counterproductive. In order to encourage exports, companies that export over 70 percent benefit from a wide range of tax and financial incentives, including exemption from certain import duties. Crown's Sanderson, exasperated, commented that the focus on exports and incentives provided to exporting companies adversely affects Tunisian commerce. From an entrepreneurial standpoint, an export-oriented business is the most difficult to launch; Tunisian businesses would be more successful if

they started to produce for the domestic market before trying to export. Sanderson complained of the 43 percent duty he had to pay on imported spare parts. As his EU competitors only pay a 7.5 percent duty for the same parts, it is difficult for Crown to remain competitive. Following the full implementation of the EU Association Agreement, set for 2008, EU companies will pay zero duty, creating an even larger gap between US and EU companies. In a telling, but frustrating, example of the effect of the excessive stress on exportation, Sanderson noted that his company was forced to import the safety boots for his factory's employees even as EVOL's Managing Director Daniele Fogagnolo revealed that EVOL is producing the very same boots for export right in Tunisia.

Still Happy in Tunisia

¶6. (U) Despite the regulatory headaches, most representatives indicated that their businesses were doing well and that they were satisfied to have chosen to do business in Tunisia. Even after the recent security-related incidents on December 23 and January 3 (ref C), all of the representatives expressed that they continue to feel safe in Tunisia. Although the companies complained about the slow pace of GOT economic reforms, those present believed that the climate for business in Tunisia was generally improving. They expressed the belief that the higher levels of the GOT, and Minister for Development and International Cooperation (MDIC) Jouini in particular, understand what reforms need to take place; it is the lower level bureaucrats that fail to see the bigger

picture.

Comment

¶7. (SBU) The opinions expressed by the US company representatives echo complaints made by other foreign companies and even by Tunisian business people. Excessive, and sometimes confusing, GOT commercial regulations hamper not only American investment, but Tunisian entrepreneurship as well. Similarly, poor telecommunications infrastructure serves as a drag on the Tunisian economy as a whole, which is surprising given the strong emphasis on ICT sector development by the GOT. Although the entry of a second mobile operator and the partial privatization of Tunisie Telecom (ref E) have had a moderately positive impact on Tunisie Telecom operations, the plans to privatize the remaining 65 percent stake of Tunisie Telecom and license a second fixed line carrier (ref A) would be welcome steps to spur upgrades to Tunisia's telecom infrastructure. Yet, as the representatives noted, the problem is not that the GOT does not understand what reforms are necessary, but that the GOT appears to be in no rush to implement them. Ambassador has raised US firms' concerns with the Minister for Development and International Cooperation Jouini (ref B) and Minister for Communications Technology Ouaili (ref A) and will continue to raise these issues with GOT officials as appropriate. End Comment.
GODEC